

The Conservation Reserve Program: A National Program with Local Impacts

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- **Impacts on Contract Holders**
- **Impacts on Associated Agribusinesses**
- **Impacts of Post-Contract Uses of CRP**

Impacts on Contract Holders

- The CRP Interim Rule stated that “the annual CRP payments shall be determined by the submission of a bid by the owner or operator and is designed to compensate the participant for taking cropland out of production and devoting it to a less intensive use.”
- Various interpretations of the purpose of the CRP annual payment have been made.

Impacts on Contract Holders

- The narrowest interpretation is that the annual CRP payment compensates for cropland.
- The more encompassing interpretation is that the annual CRP payment is an economic bribe to compensate for idling all resources fixed to the farm that otherwise would have been allocated to the production of agricultural commodities.

Impacts on Contract Holders

- Many Montana CRP contract holders have benefited from using the more encompassing interpretation.
- Many Montana producers have used a breakdown bid procedure that provides them with returns to land, buildings, machinery and equipment, family-supplied labor and operator-supplied management equivalent to returns from continued crop production, adjusted for differences in certainty.

Comparison of CRP Rental Rates with Cash, Non-Irrigated Cropland Rental Rates in Montana

Year	CRP Rental Rate (\$/Acre)	Non-Irrigated Cropland Cash Rental Rate (\$/Acre)	Ratio: CRP Rental Rate/Cropland Rental Rate
1996	29.96	17.00	1.76
1997	34.50	17.00	2.02
1998	32.58	17.00	1.91
1999	33.62	18.00	1.87
2000	35.12	17.30	2.03
2001	35.00	18.00	1.94
2002	42.45	18.50	2.29
2003	65.95	18.50	3.56

Net Returns above Variable Costs for Dryland Farm in North Central Montana with 2,020 Acres of Active Cropland

Crop	Net Returns per Acre (\$/Acre)	Percent of Cropland	Acres	Total Net Returns (\$)
Winter Wheat on fallow	96.44	11.7	236	22,760
Winter Wheat on stubble	70.11	2.3	46	3,225
Spring Wheat on fallow	91.39	27.2	549	50,175
Spring Wheat on stubble	83.00	5.0	101	8,385
Barley on fallow	74.96	4.9	100	7,495
Barley on stubble	72.60	5.1	103	7,480
Fallow	(10.89)	43.8	885	(9,640)
Total	XXX	100.0	2,020	89,880
Composite acre	XXX	XXX	XXX	44.49

Comparison of Teton County Average CRP Rental Rates with Composite Acre Net Returns above Variable Costs

Year	CRP Rental Rate/Acre (\$/Acre)	Composite Acre Net Returns (\$/Acre)	Ratio: CRP Rental Rate/ Composite Acre Net Returns
1996	37.98	44.49	0.85
1997	39.09	44.49	0.88
1998	41.55	44.49	0.93
1999	40.62	44.49	0.91
2000	43.11	44.49	0.97
2001	39.43	44.49	0.89

Impacts on Associated Agribusinesses

- **Some individual grain elevators experienced declines in wheat and barley production in their service areas due to CRP enrollment. These firms had to expand their service areas to obtain sufficient volumes to remain in business, sometimes at the expense of competing elevators.**

Impacts on Associated Agribusinesses

- **Reductions in production may have impacted individual elevators, but these patterns have not been evident with respect to wheat for the entire state. In contrast barley acreage and total production have declined.**

Impacts on Associated Agribusinesses

- **Changes in acres of wheat and barley through time were not only influenced by the CRP, but also changes in commodity policy, variations in prices and net returns for wheat and barley, changing production technologies, and growing conditions, especially drought.**

Average Annual Acres of Wheat and Barley Planted in Montana, Select Time Periods

Years	Wheat	Barley	Total
2001-2003	5,480,000	1,126,000	6,606,000
1996-2000	5,866,000	1,230,000	7,096,000
1991-1995	5,499,000	1,410,000	6,909,000
1986-1990	5,345,000	1,960,000	7,305,000
1981-1985	5,455,000	1,934,000	7,389,000

Impacts on Associated Agribusinesses

- **Soon after the announcement of acres following a CRP enrollment period, there is always concern expressed by agribusinesses. One of the first reactions is that “a lot of acres have been removed from crop production.”**
- **But acres enrolled in CRP and acres removed from crop production are not the same in the the Northern Plains and certain Mountain states.**

Impacts on Associated Agribusinesses

- Fallow is used in these regions, and more so early in the CRP.
- Crop acreage base influenced what was produced until 1996.
- Set-aside requirements were applicable until 1996.

Impacts on Associated Agribusinesses

- Consider an example of acres enrolled versus acres removed from crop production.
 - 2,000,000 acres of cropland were enrolled in CRP in Montana, but this involved only 1,200,000 acres of crop acreage base, because about 40% of Montana's cropland is fallowed annually.

Impacts on Associated Agribusinesses

- Set-asides in 1986 were 25% for wheat and 20% for barley.
- If all base in escrow was barley, then 960,000 acres were removed from the production of program crops $[(1,200,000 \text{ acres}) \times (1.00 - 0.20)]$.

Average Annual Production of Wheat and Barley in Montana, Select Time Periods

Years	Wheat (Bushels)	% of 1981-1985 Production	Barley (Bushels)	% of 1981-1985 Production
2001-2003	114,945,000	89	33,900,000	56
1996-2000	162,966,000	126	51,200,000	85
1991-1995	177,066,000	137	63,520,000	106
1986-1990	128,121,000	99	66,980,000	111
1981-1985	128,995,000	100	59,996,000	100

Impacts of Post-Contract Uses of CRP

- Concerns about possible changes in the CRP usually stimulate these studies.
- A 1991 Montana study and a later study conducted in Oregon are summarized.

Percent of Montana CRP Land to be Returned to Specific Uses, by type of Producer

Intended Land Use	Crop Producers	Livestock Producers	All Respondents
Return to Crops	62 %	16 %	51 %
Hay or Graze	30 %	84 %	42 %
Retain in Conserving Use	6 %	0 %	6 %
Other	2 %	0 %	1 %
Total	100 %	100 %	100 %

Percent of Oregon CRP Acres more Profitable in Wheat Production than Receiving an Annual \$50 per acre CRP Payment, at Alternative Wheat Prices

	Wheat Prices (\$/bushel)				
County	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Gilliam	0 %	3 %	39 %	71 %	89 %
Morrow	0 %	11 %	41 %	68 %	81 %
Sherman	0 %	7 %	28 %	50 %	71 %
Umatilla	16 %	30 %	53 %	79 %	91 %
Wasco	1 %	11 %	34 %	60 %	67 %

Impacts of Post-Contract Uses of CRP

- Upon contract completion lands enrolled in CRP will tend to revert to their prior uses as long as the underlying nature of the overall farm or ranch has not changed during the CRP contract period.
- The exception to the above finding may be with some livestock operations already capitalized to make use of the conserving use for haying or grazing.

Questions

